

US Department of Treasury - Venezuela Sanctions - Diluents

10th June 2019

On the 6th June the US Department of Treasury amended previously issued Venezuela related General Licenses incorporating a prohibition dealing with the exportation or re-exportation of diluents directly or indirectly to Venezuela.

Venezuela has some of the thickest “extra heavy” crude oil coming for example from the Orinoco Belt, Venezuela’s largest producing region. The nature of this crude is such that it can’t be exported without first being diluted in order to improve its flow capabilities. Naphtha has been most commonly used in the past with the majority being imported from the United States.

The amendment to the General Licence has led the US Department of Treasury to issue an additional FAQ N0. 672 which responds to the question – Can I export or reexport diluents to Venezuela?

We take this opportunity to set out below in full the FAQ 672 for guidance. Care and attention should be given the last paragraph which we have evidenced;

672. Can I export or reexport diluents to Venezuela?

No. Diluents (including, for example, crude oil and naphtha) play a key role in the transportation and exportation of Venezuelan petroleum, a primary source of revenue for the illegitimate and corrupt Maduro regime, which the United States seeks to restrict further. OFAC is amending General Licenses (GLs) 7A, 8, and 13 effective as of June 6, 2019, to restrict U.S. persons engaging in transactions and activities authorized by those GLs from exporting or reexporting diluents, directly or indirectly, to Venezuela, or from engaging in transactions or activities related thereto.

Absent authorization from OFAC, all U.S. persons continue to be prohibited from engaging in any dealings with Petr leos de Venezuela, S.A. (PdVSA), or any entity in which PdVSA owns, directly or indirectly, a 50 percent or greater interest. In addition, non-U.S. persons could be subject to designation pursuant to Executive Order 13850, as amended, for operating within the oil sector of the Venezuelan economy, or for having materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of PdVSA, including the exportation or reexportation of diluents to PdVSA.

Given PdVSA's role as Venezuela's state-owned oil company, exports or reexports of diluents to Venezuela likely include a direct or indirect interest of PdVSA. **As a result, persons directly or indirectly exporting or reexporting diluents to Venezuela should exercise enhanced due diligence to verify the ultimate end user and ensure that the transaction does not involve a direct or indirect interest of a sanctioned person, including PdVSA, even if the sanctioned person is not identified as a participant in the transaction.**

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